

1 THE HONORABLE SAMUEL J. STEINER
2 Chapter 11
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9
10 UNITED STATES BANKRUPTCY COURT
11 WESTERN DISTRICT OF WASHINGTON
12 AT SEATTLE

13 In re:) NO. 09-10188-SJS
14 LAWRENCE KATES,)
15) Debtor.)
16 _____)
17 In re:) No. 09-17084-SJS
18 HILLSIDE BALBOA, LLC,) PLAN ADMINISTRATOR'S NOTICE
19) RE INITIAL DISTRIBUTION TO
20) CLASS 5 CREDITORS
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NOTICE IS HEREBY GIVEN that the Bankruptcy Court has appointed the Stapleton Group, Inc. as the Plan Administrator (the "PA") by its order dated May, 24, 2010 (the "PA Appointment Order"). Creditors who have questions or comments for the PA regarding this Notice may direct their questions or comments to:

27 Jake Dilorio, Director
28 Stapleton Group
29 514 Via de la Valle, Suite 206
30 Solana Beach, CA 92075
31 Phone: (213) 235-0600, Ext. 109
32 jdilorio@stapletoninc.com

33 Pursuant to Article VIII of the Debtor's confirmed Amended Plan, the PA is given the
34 authority, in its discretion, and depending upon its independent assessment of the adequacy
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37 PLAN ADMINISTRATOR'S NOTICE RE INITIAL
38 DISTRIBUTION TO CLASS 5 CREDITORS - 1

39 124867.0001/1865011.1

40 LANE POWELL PC
41 1420 FIFTH AVENUE, SUITE 4100
42 SEATTLE, WASHINGTON 98101-2338
43 206 223.7000 FAX 206 223.7107

1 of the cash resources of the bankruptcy estate of Larry Kates (the “Estate”), to make an initial
2 distribution (the “Initial Distribution”) to Class 5 Claimants holding Allowed Claims within
3 60 days of the Effective Date (May 4, 2010). The PA has conducted its initial review of the
4 pleadings and materials on file with the Bankruptcy Court as well as the books and records of
5 the Debtor and certain of his affiliates. The PA has also inspected various properties and met
6 and consulted with the Post-Confirmation Committee (the “PCC”) and the Debtor Larry
7 Kates (who is currently serving as the “Plan Manager” or “PM”). Based upon this review
8 and these consultations, and after carefully considering the Estate’s cash resources and the
9 level of cash reserves necessary to assure the Plan Administrator’s ability to fully and timely
10 defray the Estate’s current and future administrative and priority expenses incurred in
11 administering the Amended Plan, the PA has determined that it is not possible at this juncture
12 to determine whether any portion of the Estate’s limited cash on hand can be prudently
13 distributed at this time without impeding the liquidation of the Estate’s remaining assets and
14 the orderly administration of the Amended Plan. In particular, potential tax liabilities and
15 other potential future expenses relating to disposition of properties and could drastically
16 affect the cash resources required to administer the Estate.

17 In addition, the PA has determined that even if sufficient Estate funds were otherwise
18 currently available for distribution to Class 5 creditors, there is a substantial controversy as to
19 what claims (and which portion of certain claims) should be treated as Allowed Claims for
20 purposes of such Initial Distribution. In this regard, the Debtor has very recently advised the
21 PA of his opinion that certain claims of note holder creditors should be disallowed in whole
22 or part under applicable California law. The magnitude of such a potential disallowance is
23 substantial and would significantly alter the amounts of any Initial Distribution. In this
24 regard, Article XI of the Amended Plan grants the PA a period of six months amount of the
25 Initial Distribution to creditors from the Effective Date of the Amended Plan to complete its
26 review of the claims of creditors against the Estate. Given these and various other budgeting

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1 and claims allowance issues, the PA is unable at this time to authorize an Initial Distribution
2 and it has determined it is in the best interests of the Estate and its creditors that it make no
3 Initial Distribution at this time. However, the PA is aware of the Amended Plan's
4 requirement that an Initial Distribution occur as soon as there is a sufficient amount of
5 unneeded Estate cash funds available for distribution. The PA is therefore dedicated to
6 promptly proceed with its analysis of the Estate's cash resources and claims allowance issues
7 in order to make an Initial Distribution to holders of Class 5 Claims not subject to bona fide
8 dispute at the earliest reasonable opportunity.

9 DATED this 6th day of July, 2010.

10 LANE POWELL PC
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12 By /s/ Bruce W. Leaverton
13 Bruce W. Leaverton, WSBA No. 15329
14 Attorneys for Stapleton Group, Inc.,
Plan Administrator

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PLAN ADMINISTRATOR'S NOTICE RE INITIAL
DISTRIBUTION TO CLASS 5 CREDITORS - 3

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